



THE COUNCIL OF THE CITY OF BINGHAMTON  
STATE OF NEW YORK

Date: November 6, 2013

Sponsored by Council Members: Webb, Motsavage, Matzo, Berg, Mihalko, Papastrat

Introduced by Committee: Finance

RESOLUTION

*entitled*

A RESOLUTION APPROVING A LOAN FROM  
THE BINGHAMTON LOCAL DEVELOPMENT  
CORPORATION (BLDC) IN THE AMOUNT OF  
\$200,000 TO MOUNTAIN FRESH DAIRY, LLC

WHEREAS, the Binghamton Local Development Corporation ("BLDC") approved a loan to Mountain Fresh Dairy, LLC in the amount of \$200,000, in accordance with BLDC Resolution 13-19, adopted on October 17, 2013; and

WHEREAS, these funds shall be used to purchase machinery and equipment for a kosher dairy processing plant facility to be located at 135-149 Conklin Avenue, Binghamton, New York.

NOW, THEREFORE, the Council of the City of Binghamton, duly convened in regular session, does hereby:

RESOLVE that the Council of the City of Binghamton does hereby authorize and approve a loan to Mountain Fresh Dairy, LLC in an amount not to exceed \$200,000; and be it further

RESOLVED that BLDC Resolution 13-19, adopted on October 17, 2013, setting forth the terms and conditions of such loan is annexed hereto and made a part hereof, and that such loan shall be subject to other terms and conditions as Corporation Counsel may find necessary and proper.

I hereby certify the above to be a true copy  
of the legislation adopted by the Council  
of the City of Binghamton at a meeting  
held on 11/6/13. Approved by the  
Mayor on 11/7/13.

A handwritten signature in cursive script, appearing to read "Douglas Holmes".

**RESOLUTION 13-19**

October 17, 2013

**A RESOLUTION OF THE BINGHAMTON LOCAL DEVELOPMENT CORPORATION APPROVING A REVOLVING FUND LOAN TO MOUNTAIN FRESH DAIRY, LLC IN THE AMOUNT OF TWO HUNDRED THOUSAND DOLLARS AND NO CENTS (\$200,000.00) TO SUPPORT THE PURCHASE OF EQUIPMENT FOR THE KOSHER DAIRY PRODUCTION PLANT LOCATED AT 135-149 CONKLIN AVENUE, BINGHAMTON, NEW YORK.**

WHEREAS, The Principals of Mountain Fresh Dairy, LLC, herein known as "Applicant" have submitted an application for gap financing through Binghamton Local Development Corporation (BLDC) to support the purchase of equipment for the kosher dairy plant located at 135-149 Conklin Avenue, Binghamton, NY; and

WHEREAS, said loan application meets all eligibility requirements set forth by the BLDC Revolving Fund Loan Program; and

WHEREAS, the Applicant demonstrates adequate cash flow to support the loan; and

WHEREAS, the BLDC staff & loan committee have reviewed the said application and recommend it for approval; and

WHEREAS, said loan shall be funded from miscellaneous repayments to the City of Binghamton Community Development Block Grant (CDBG) fund.

WHEREAS, the loan will require the creation of 6 new jobs, 51% of which must be hired from individuals in the HUD defined low-moderate income categories, and

NOW, THEREFORE; the Board of Directors of the BLDC, duly convened at a regular meeting hereby does;

RESOLVE that the Revolving Fund Loan to Mountain Fresh Dairy is hereby approved in the amount of Two Hundred Thousand Dollars and no cents (\$200,000.00) and be it further.

RESOLVED, that the Note and terms of said loan together with the loan collateral shall be listed in the narrative attached hereto; and be it further.

RESOLVED, that this loan is not likely to have a significant impact on the environment as it is for the purchase of equipment that will be installed in an existing facility; and be it further.

RESOLVED, that the Executive Director of the BLDC shall gain the approval of Binghamton City Council for this loan, and be it further.

# BLDC Board of Directors Loan Narrative: Mountain Fresh Dairy, LLC

## BINGHAMTON LOCAL DEVELOPMENT CORPORATION BOARD OF DIRECTORS OCTOBER 17, 2013

### LOAN NARRATIVE

#### **Project Profile**

**Borrower:** Mountain Fresh Dairy, LLC

**Loan Amount:** \$200,000

**Loan Program:** Revolving Fund Loan (CDBG)

**Rate:** Wall Street Journal Prime Rate in effect upon Board Approval, but not less than 4%

**Term:** 7 years

**Amortization:** 7 years

#### **Collateral:**

Inter-creditor Agreement between the BLDC and the IDA for a shared 1<sup>st</sup> interest in the real property, equipment, FF&E, and all remaining business assets funded through the two public entities.

Life insurance policy for Zeev Rothschild & Norman Rausman in the amount of \$200,000 for the term of the loan.

#### **Guarantors:**

Unlimited Personal Guarantees of Zeev Rothschild

Unlimited Personal Guarantee of Norman Rausman

#### **Job Creation:**

The loan will help to create 140 skilled full time equivalent positions (full time equivalent position is defined as working 40 hours a week). Of the six job required, 51% will be from HUD defined low to moderate income levels. The business is scheduled to satisfy this job creation requirement within the three-year time frame stipulated by HUD.

#### **Project Description:**

The applicant has requested a BLDC Revolving Fund loan in the amount of \$200,000 for gap financing to support the purchase of machinery and equipment for the formed entity: Mountain Fresh Dairy, Inc—a local start-up premium kosher dairy processing company located at 135-149 Conklin Avenue. In an effort to start the business, the applicant is prepared to invest personal equity in the amount of \$2,508,000 million (approximately 71%). The applicant's 2,508,000 million equity injection will be provided through personal cash of \$325,000, the purchase of real estate (\$150,000), purchased of new and used equipment \$1,983,000.00:

The total cost of the project will be \$3,500,000. The applicant is pursuing letters of commitment for financing from the following financial institutions: IDA (\$200,000), Bank of America (\$1,000,000). Since July 11, 2013, Bank of America (BOA) has agreed to provide equipment leasing as part of the financing in order to allow the company to expand its production and distribution operations as the business grows its customer base. The initial operation will require a draw of \$600,000 with a remaining lease line of \$400,000 for future investment in new equipment.

## BLDC Board of Directors Loan Narrative: Mountain Fresh Dairy, LLC

For the first five years of operation, the kosher dairy plant will produce a dairy product line consisting of milk, cheese, ice cream, and yogurt. Once they have established their brand in this niche market. The overall goal is to expand into additional kosher product lines (juice drinks, water, etc)

While there are other milk producers throughout the east coast: Golden Flow (55% of market share produced by Mountainside Dairy in northern Catskill area), Fresh and Tasty (22% of market share), Devash, (11% of market share produced by Midland Farm near Albany area), and Pride of Farm (12% of market share produced at Kreider Farm near Lancaster, PA), what will set this plant apart from other operations, is its 100% Kosher production methods – Cholov Yisroel plant, which means that it will produce 100% of its milk and other products under the highest standards of kosher supervision. This designation will in itself help procure a vast market that pays a premium price for their product, and urgently needs an infusion of kosher dairy product to keep up with this growing market. This Cholov Yisroel standard is very difficult for other plants to duplicate, which is anticipated to give Mountain Fresh Dairy a strong advantage over its competitors.

To ensure the highest quality production of kosher milk, MFD has already hired consultants, some of the head staff of the former Hood plant, to ensure that the machinery is sized properly, operational flows are efficient, and the proper quality can be assured, from the bottom up. It is the full intent of MFD to first offer jobs to the former Hood employees, many of whom are still unemployed, to run the plant. Almost all other employees will be (if possible) local employees, so as to help employment within the City limits.

In addition, through ties in the food industry, two other milk distributors have expressed strong interest in purchasing the dairy products after the plant has produced a good quality product between two to three months.

### Why do this Project:

Mountain Fresh Dairy proposal has the potential to help stimulate the local economy as a new employer in the community. Through this venture, the BLDC will help to create over 100 jobs in the area within a three year timeframe. Furthermore, the recruitment of this business will assist a growing industry and spur future investment and employment in the City.

### Why Binghamton?

The City of Binghamton has a vacant dairy plant located at 135-149 Conklin Avenue that is readily equipped with the appropriate square footage and infrastructure to run a midsize dairy production facility. Given the fact that the real estate and equipment was for sale, the owners of Mountain Fresh Dairy were able to acquire these assets at a low cost. Furthermore, given Binghamton's close proximity to the dairy farm that will treat the livestock and produce the kosher milk, the company can control the production and kosher methods to ensure the quality of milk and other dairy products that will be produced for the observant Jewish communities along the East Coast. By producing the dairy product in the same region as the source of the milk, this allows the company to keep costs down, while maximizing production (longer shelf life), quality, and selling it on the market at a premium price.

## BLDC Board of Directors Loan Narrative: Mountain Fresh Dairy, LLC

shown on their personal financial statements, the strength of their personal guarantees, and strong equity position in the total cost of the project.

- Administration Costs were estimated at 20% to account for the potential costs associated with payroll, accounting, and other non-operating expenses of the dairy operation
- Distributions were estimated at 36% (marginal tax rate) to account for tax liabilities for each of the partner shares in the company
- New York State Excelsior Tax Credits will be received and distributed to the principals for over a 10 year period. These tax credits will be distributed based on the number of jobs created within this projected time frame.
- In cash flows analysis, distributions were estimated at 36% and the impact of the NYS Tax Credits were applied to show the company's true cash flow potential

### Cash Flow Analysis:

After conducting a review of the financial information provided, modifications were applied to these projected financial documents to account for potential non-operating expenses associated with the production aspects of the dairy plant.

Given the uniqueness of the market structure for kosher dairy production, comparable trends were not readily available to effectively determine the accuracy of the projected financial statements. To mitigate this, a breakeven analysis was created to show a less aggressive sales growth in first year of operations.

A Breakeven Analysis was created to show the business break-even point: the point at which no profits have been made or losses have been incurred. In this breakeven analysis, the modified financial information assumed a \$3,894,343 decrease in projected revenues for the year 2014, while keeping constant Cost of Goods Sold (COGS), and the total annual outstanding business debt. Based on the assumptions used, the company could realize approximately a 50% decrease in anticipated revenue and still meet their projected debt service requirement.

### Risks:

- This is a start-up operation
- The operations of the company place emphases on the kosher production, which is a highly competitive niche market
- There is a limited demographic and geographic market for distribution
- Initially, the plant operations will consist of a limited product line
- There are limited suppliers for kosher products

### Mitigates:

- The BLDC is in a collateralized position
- The borrowers have strong personal guarantees
- The owners are injecting substantial equity into the project
- The owners of the company have the resources and knowledge to effectively run the production and distribution aspects of the business
- The owners of the business are observant of kosher practices in the Judaic religion and understand the culture and religious process of producing and consuming kosher products.